

MINUTES

**North Dakota Public Employees Retirement System
Thursday, November 21, 2002
Blue Cross Blue Shield
107 West Main
Bismarck, North Dakota**

Members Present:

Video Conference

Chairman Jon Strinden

Mr. David Gunkel

Ms. Rosey Sand

Mr. Howard Sage

Mr. Weldee Baetsch

Ms. Tabor

Absent

Dr. Terry Dwelle

Others Present:

Mr. Sparb Collins, Executive Director NDPERS

Mr. Scott Miller, Attorney General's Office

Ms. Denise Curfman, NDPERS

Ms. Kathy Allen, NDPERS

Ms. Deb Knudsen, NDPERS

Mr. Bryan Reinhardt, NDPERS

Ms. Arvy Smith, Health Department

Ms. Connie Flanagan, RIO

Mr. Larry Brooks, BCBS

Ms. Rhonda Peterson, BCBS

Mr. Tom Tupa, INDSEA

Mr. Howard Snortland, AFPE

Mr. Steve Cochrane, RIO

Mr. David Peske, ND Medical Association

Ms. Rebecca Fricke, NDPERS

Ms. Sharmain Dschaak, NDPERS

Mr. Bob Thomas, SEI

Mr. Kevin Matthews, SEI

Chairman Strinden called the meeting to order at 8:31 AM.

Minutes

Chairman Strinden called for any questions or comments regarding the October 24, 2002 NDPERS Board minutes.

Mr. Gunkel moved approval of the October 24, 2002 NDPERS Board minutes. Mr. Baetsch seconds.

Asset Allocation (Board Action Requested)

Mr. Bob Thomas and Mr. Kevin Matthews, Representatives of SEI, appeared before the board to review the asset allocation study they prepared. Mr. Kevin Matthews presented the following conclusions of the study:

- The actuarial accrued liability funded ratio is expected to decline for the next several years due to the smoothing of current and prior year asset losses.
- Inclusion of the cost of living adjustment provision will not effect the level or pattern of expected future requirements, however it will effect the funded level of the plan
- Increasing or decreasing the overall equity level in the portfolio by 10% will not significantly effect the pattern of the funded status for the next several years.
- The current portfolio is well diversified to provide protection in poor markets and will allow the plan to participate in a market recovery

Mr. Sage presented the recommendation of the investment subcommittee. Mr. Steve Cochrane, from RIO, indicated that a 60/40 mix is a classic design. Mr. Bob Thomas and Mr. Kevin Matthews concurred with the investment subcommittee's recommendation.

Mr. Sage moved approval of the investment subcommittee's recommendation of:

Large Cap Equity	30%	Small Cap Equity	10%
Intn'l. Equity	10%	Emerging Mkt Equity	5%
Dom. Fixed Income	24%	High Yld. Fixed Inc.	5%
Intn'l Fixed Income	5%	Real Estate	5%
Private Equity	5%	Cash	1%

Ms. Tabor seconds.

Ayes: Baetsch, Gunkel, Sage, Tabor, and Chairman Strinden.

Nays: None

Absent: Dwelle and Sand

PASSED

Salary Assumptions (Informational)

Mr. Collins indicated that the salary assumptions review the board had asked Segal to prepare were included in the board material. Mr. Collins reviewed the findings with the Board. Essentially, Segal concluded that there was no significant difference between the salary increase for the state and its participating political subdivisions.

NDPERS 457 Companion Plan 3rd Quarter 2002 Report (Informational)

Mr. Reinhardt reviewed the 3rd quarter 2002 investment report for the Deferred Compensation Companion Plan. Mr. Reinhardt indicated that the assets decreased to \$7.4 million as of September 30, 2002. The largest fund is still the VALIC Unallocated Fixed Account with over \$1.2million dollars. Fund returns for the quarter were mostly negative. It was noted that the use of the new funds increased during the period. As of September 30, 2002 there was \$780,065 in the 15 new funds. This is about 10.5% of total plan assets.

NDPERS 401(a) Defined Contribution Plan 3rd Quarter 2002 Report (Informational)

Mr. Reinhardt reviewed the 3rd quarter 2002 investment report for the Defined Contribution Plan. Mr. Reinhardt indicated that the assets fell to about \$7.2 million as of September 30, 2002. The

largest fund is the Fidelity managed Income Portfolio with 27% of the assets. Fund returns for the quarter were mostly negative.

Roll-In Provision (Board Action Requested)

Ms. Rebecca Fricke appeared before the Board. Ms. Fricke indicated that NDPERS has submitted legislation to allow PERS to accept 457 and 403(b) funds for the purpose of purchasing service credit within the Defined Benefit Plan. This change in the Century Code was requested due to changes on the federal level with the passing of EGTRRA. If passed, the effective date would be August 1, 2003. At this time, staff would like to begin preparing for this change. Ms. Fricke indicated, currently NDPERS is able to accept roll-ins from qualified plans for the purpose of purchasing service. Staff has developed policies to administer the purchase of service with qualified plans. The policies were included in the board materials. Staff is suggesting the same policies for 457 and 403(b) transfers.

Mr. Gunkel moves approval of staff recommendation to adopt current roll-in policies to apply to all types of roll-in purchases (qualified and non-qualified plans). Ms. Tabor seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays: None

Absent: Dwelle

PASSED

Late Premium Payment Rule (Informational)

Ms. Allen indicated that at the October meeting the Board adopted a new administrative procedure for processing late premium payments from retirees. Staff has reviewed the implications of this new procedure and has determined it can be implemented subject to the following:

1. It will be necessary to change our billing cycle which will require some programming changes. We are in the process of defining these criteria in order to submit a request for a cost estimate to ITD. Whether we can move forward with programming will be contingent on ITD's cost estimate.
2. The system must also be programmed to generate a letter notifying the member that coverage is cancelled and the policy for reinstatement. This too is contingent on the cost estimate provided by ITD.
3. Currently Chapter 71-03-05-03 sets forth the late premium policy for retirees. This policy requires a late premium reminder for the first month past due and a certified letter when the account is two months past due. Based on a review by our legal counsel, it appears it will be necessary to amend this chapter and promulgate new rules before we can implement the provisions of this policy.

Ms. Allen indicated that staff will continue to refine the details for implementation of this policy and will update the Board as necessary.

Transfer Procedures (Informational)

Ms. Allen indicated at the July meeting, the Board approved to standardize the enrollment requirements that apply to employees that transfer from one covered employer to another covered employer. This determination was made on the basis that currently to maintain the continuity of coverage under the retirement and FlexComp plans the employees record is transferred to the new employer and for the group insurance programs the individual is treated as a new employee and required to re-enroll for coverage. Staff has reviewed the implications of this policy and determined that PERS can make the changes necessary to administer this provision.

Ms. Allen indicated that staff will work to implement this policy effective July 1, 2003. This will allow PERS ample time to begin the communication effort to participating employers.

Surplus/Affordability Update (Informational)

Mr. Reinhardt provided an over view of the report for the board.

Legislation (Board Action Requested)

Mr. Collins indicated that in recent months the Board has reviewed the technical and actuarial comments on the proposed legislation and reviewed the actuarial valuations for all of PERS retirement plans. As a result of these actions we have:

1. Suggested amendments to proposed legislation, and
2. Withdrawn all PERS proposals that have an actuarial effect.

The Legislative Employee Benefits Committee and legislative sponsors have considered our suggestions.

At this point all bills are being returned by Legislative Council to the sponsors for their final consideration. If the sponsors want to move forward with the bills they will need to submit them by a specific date to Legislative Council for consideration in the upcoming session.

Mr. Collins indicated that staff is seeking the board's direction or approval:

1. To submit the bill drafts numbers 53, 57, and 59 proposed prepared by PERS
2. On what position to take on bills sponsored by legislators that will likely be submitted.

Secondly, Mr. Collins asked the Board for direction on what position the agency wanted to take on bill drafts that had not been prepared by PERS. It was noted that PERS has taken a neutral position in the past on bills and provided technical comments to the legislature. During discussion it was noted that two bill drafts may have a negative impact on the defined benefit plan. Those bill drafts are #18 and #28. On bill #18 it was noted that the recent memo from GRS states:

The analysis above shows that, without additional funding, if the optional DC plan is enacted, PERS will end up worse off than if the DB plan had remained as the mandatory retirement vehicle for all employees. With the optional DC plan, PERS will have a higher unfunded actuarial accrued liability, a lower funded ratio, and the negative margin—the difference between the 4.12% statutory employer contribution rate and the Board's benchmark employer contribution rate will be larger.

It was decided to ask GRS to attend the next Board meeting via conference call to discuss this finding. I was decided to defer the discussion on these two bills until the next meeting.

Mr. Sage moved to take a neutral position on all non PERS bills except 18 and 28. Mr. Baetsch seconds.

Ayes: Baetsch, Gunkel, Sand, Sage, Tabor, and Chairman Strinden.

Nays: None

Absent: Dwelle

PASSED

Discussion followed on bills 18 and 28. It was determined to bring GRS in via conference call at the next meeting to discuss bills 18 and 28.

Personnel Policy (Board Action Requested)

Ms. Allen reviewed several suggest revisions to the Policy Manual.

Chapter 2: 2.5 - Hiring Policy/Background Checks: It is the policy of NDPERS to exercise reasonable care in hiring employees by conducting a thorough background check on all candidates selected for hire, regardless of the position and prior to the candidate reporting to work.

Chapter 9: 9.5 –Sick Leave Policy: If you become ill while at work, it is your responsibility to notify your supervisor before leaving the office. It is NDPERS policy to provide for transport assistance upon your request or if management deems it advisable based on observed symptoms or the nature of the illness.

Ms. Sand moved approval of policy changes. Ms. Tabor seconds.

Ayes: Baetsch, Gunkel, Sand, Tabor, and Chairman Strinden.

Nays: Sage

Absent: Dwelle

PASSED

Discussion followed as to whether the personnel policy changes should come before the Board. It was decided that after the upcoming legislative session a meeting would be called to clarify.

Emergency Commission Request (Informational)

Mr. Collins indicated that a request to the Emergency Commission had been filed. The request was for a line item transfer from contingency to operating and also that the 75% limitation for the operating line item be waived. The Emergency Commission met on Tuesday, November 19, 2002 and approved the request.

Mr. Collins indicated that the request has been granted.

July 9, 2002 PERS Audit Committee Minutes (Informational)

The July 9, 2002 PERS Audit Committee Minutes were provided in the board materials for the boards review.

Chairman Strinden called for any other business.

Next meeting is scheduled for December 19, 2002 at Blue Cross Blue Shield, Bismarck.

The meeting adjourned at 11:15 AM.

Respectfully Submitted

Denise A. Curfman

*Denise A. Curfman
Secretary, NDPERS Board*